

# Management and Oversight of Defense Agencies<sup>1</sup>

Defense agencies provide support functions on a department-wide basis. Their inception in the early 1960s grew out of efforts to centralize operations, and thus achieve management efficiencies, through the migration of common functions away from the military services. While possibly providing benefits, centralization is not without problems. Nor does it necessarily make economic sense for the Department of Defense (DoD) to provide for itself, whether on a centralized or decentralized basis. This paper examines issues concerning the management of defense agencies from this point of view. It begins with a brief discussion of the motivations behind the establishment of defense agencies.<sup>2</sup> The discussion then turns to the Department's experience in managing centralized activities, exploring some of the problems that past research has highlighted as well as steps that have been taken to address them. Finally, the paper identifies management issues currently confronting the Department and examines potential approaches for strengthening agency oversight.

## Background

Fifteen defense agencies and seven field activities provide support to the Defense Department. These organizations perform functions ranging from commissary sales to missile defense research. Collectively, they account for over \$65 billion in annual expenditures, or about 20 percent of the DoD budget.<sup>3</sup> Both in terms of numbers and expenditures, most of the agencies, including the largest ones -- Defense Logistics Agency (DLA) and the Defense Health Program (DHP) -- perform functions that are similar to services available commercially.<sup>4</sup> For example, DLA, with a staff of 39,000, conducts activities budgeted at \$17 billion a year. Similarly, the DHP accounts for about \$18 billion in expenditures and 139,000 employees (predominantly military personnel). Even the relatively smaller support organizations, such as the Defense Contract Management Agency, control about \$1 billion in annual expenditures. Thus, the sheer size of defense agencies poses control and oversight problems. In examining these issues, this paper focuses on agencies that provide goods and services that are considered commercial in nature.

## The Rationale for Some Defense Agencies Is Economic

Considerations of economies of scale, elimination of duplication among the services, and standardization of processes influenced the creation of defense agencies and DoD field activities (hereafter collectively referred to as defense agencies). The idea was that it made sense to consolidate, under a single provider, functions that were common to the four services but had traditionally been performed independently by them. This rationale

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<sup>1</sup> Prepared by the Economic and Manpower Analysis Division, Office of Program Analysis and Evaluation, U.S. Department of Defense.

<sup>2</sup> For historical research and accounts of the creation of defense agencies, this analysis draws on Institute of Defense Analyses paper P-3627, *Next Steps for Managing Defense Agencies, Field Activities, and Support Process* (December 2001).

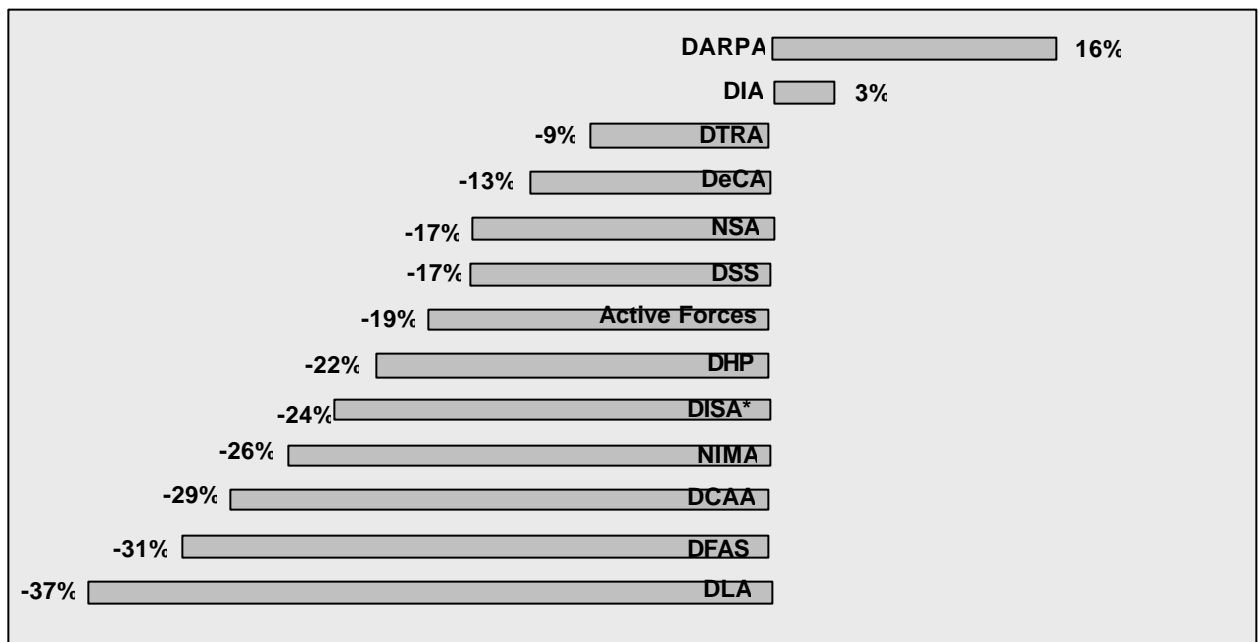
<sup>3</sup> This includes appropriated funds and Defense Working Capital Fund expenditures.

<sup>4</sup> Appendix 2 provides a complete list of the defense agencies and field activities.

for the creation of defense agencies dates back to the 1950s. The Defense Reorganization Act of 1958 explicitly authorized the Secretary of Defense to assign support functions conducted by more than one service to a single organization. The origins of many defense agencies reflect this underlying motive (see Appendix 1 for a brief history).

There is some evidence that the rationale was justified. Figure 1 shows how agencies have reduced their work forces since the early 1990s (when much of the consolidation took place). In addition, there is empirical evidence that certain functions, such as pay processing and long-distance communication systems, exhibit economies of scale. Despite successes in downsizing, by the late 1990s many observers inside and outside DoD had become concerned that oversight of agency operations was unwieldy and ineffective, and that customer responsiveness was slipping.

Figure 1. Percentage reduction in defense agency civilian personnel, FY 1993 – 2001



\* DISA civilian personnel reductions are displayed for FY 1994 – 2001.

### Problems with Control and Oversight

In essence, the centralization efforts of the past 40 years created what amounts to internal monopolies for goods and services. The academic economics literature has much to say about the advantages and disadvantages of monopoly. One key disadvantage is that, because they are insulated from competitive pressures, monopolies become less responsive and even insensitive to customers' needs. Another disadvantage is that unregulated monopolies lack the incentive to be efficient. Thus, regulation is called for. Regulating a group of monopolies, many of which exceed the size of Fortune 500 companies, is not, however, a straightforward task. The following section discusses the various mechanisms that have been implemented to facilitate agency oversight.

## Oversight Mechanisms

The primary governance mechanism is the assignment of agencies to Principal Staff Assistants (PSAs) within the Office of the Secretary of Defense (OSD). Other regulatory mechanisms include the Planning, Programming, and Budgeting System (PPBS); Combat Support Agency Review Team (CSART) assessments by the Joint Staff; OSD biennial reviews; performance plans; and oversight boards.

### OSD Principal Staff Assistants

The first defense agencies reported directly to the Secretary of Defense. By 1977, there were 11 agencies, 10 of which reported to the Secretary. Having defense agencies under the direct control of the Department's most senior executive added to the management burdens of the office, while diluting the time that could be devoted to agency oversight. This arrangement changed in the late 1970s when former Secretary of Defense Harold Brown decided to reduce his personal span of control by transferring management authority for 10 of the 11 agencies to the Under Secretaries and Assistant Secretaries of Defense. It was hoped that the reassignment would "permit the agencies to receive prompt policy guidance from the senior OSD official best suited to provide it."

This decision laid the foundation for the arrangement in place today, in which defense agencies and field activities fall under the management, direction, and control of an Under Secretary or an Assistant Secretary of Defense (the Secretary's PSAs). Figures 2 and 3 depict the current reporting chain.

Consider the magnitude of the regulatory problem faced by a typical PSA. For example, the Under Secretary of Defense for Personnel and Readiness (USD(P&R)) is responsible for the direction of 1.4 million active-duty service members, 850,000 reservists, and 600,000 civilian employees. Compensation, benefits, recruiting, and retention all fall within his purview. In addition, the USD(P&R) must oversee the readiness of the nation's military forces. On top of these responsibilities, the Under Secretary also is charged with managing three large agencies: the Defense Commissary Agency, the DoD Education Activity, and the Defense Health Program. So in essence, the USD(P&R) is managing the equivalent of a national grocery chain, a large public school system, and an \$18 billion per year medical system, almost as collateral duties. Defense agency issues, by definition, must vie with other concerns for the Under Secretary's time. There are inherent span-of-control problems with this arrangement.

Not surprisingly, then, the PSAs have had a mixed record of success in agency oversight, and there have been great variations in PSAs' effectiveness in managing the agencies assigned to them. These problems have been noted by a number of on defense agencies, leading to the conclusion that OSD oversight mechanisms may be inadequate.<sup>5</sup>

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<sup>5</sup> Theodore Antonelli, *Report to the Secretary of Defense of the Defense Agency Review* (March 1979) and the Staff Report to the Senate Armed Services Committee, *Defense Organization: The Need for Change* (October 1985).

Figure 2. Defense agencies and associated OSD reporting chain

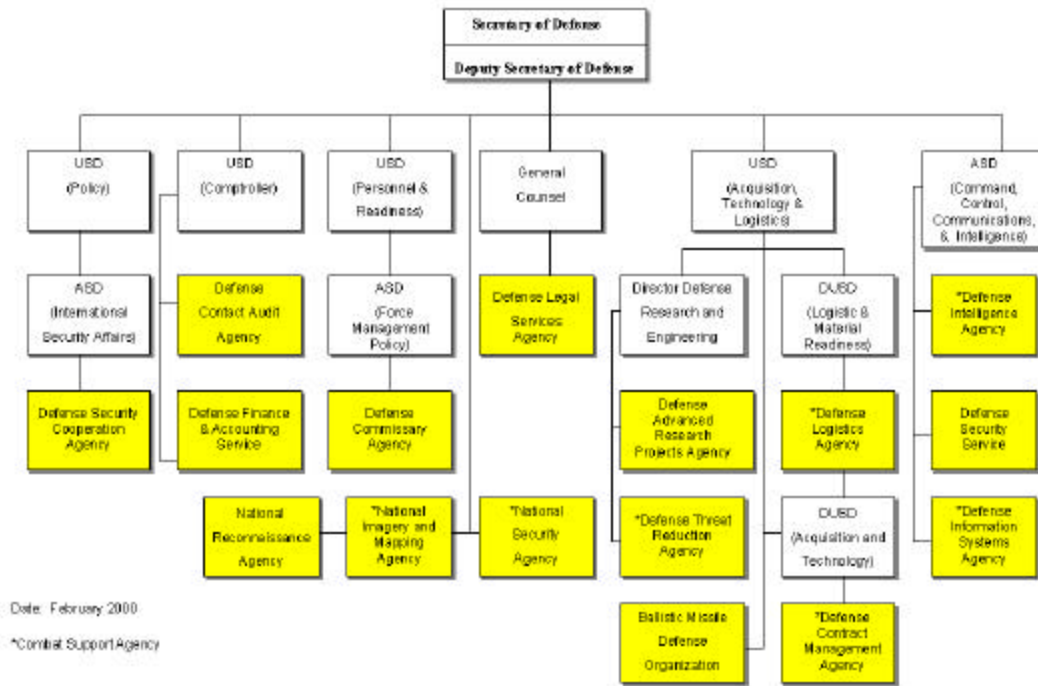
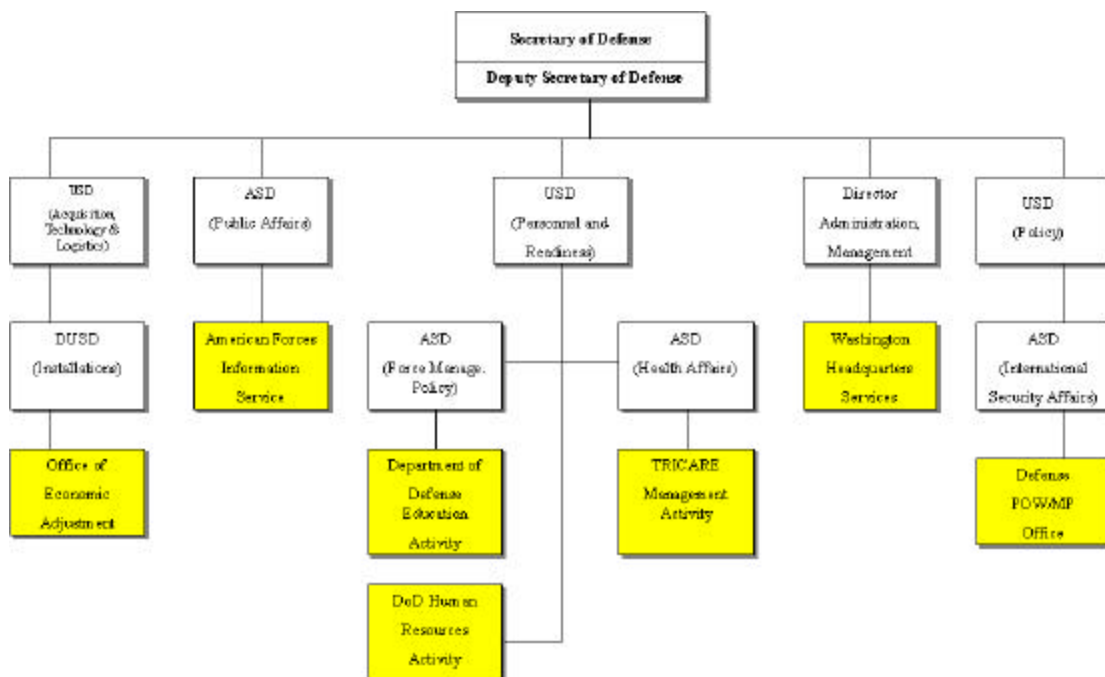


Figure 3. Department of Defense field activities and associated OSD reporting chain



## Other Oversight Mechanisms

In addition to PSAs, the Department of Defense has instituted various other oversight mechanisms, each of which tackles a particular type of issue, such as efficiency, customer satisfaction, and combat readiness. The use of these mechanisms reflects DoD efforts to reform and improve defense agency management.<sup>6</sup>

**Planning, Programming, and Budgeting System (PPBS).** The PPBS process provides a means to attempt economic management of defense agencies. This mechanism takes on increased significance when one considers the commercial-like agencies that are not fully exposed to market forces. Though defense agency initiatives do receive some scrutiny in the program review process, many observers contend that the degree of rigor with which they are assessed is not as great as that afforded to the military services. Furthermore, the review process tends to focus on ad hoc issues affecting individual agencies rather than providing a cross-cutting examination. Moreover, it has been argued that customers (the services and Joint Staff) do not have adequate influence on defense agency plans and programs, although that point is contentious.

**Joint Staff CSART Assessments.** Title 10, Section 193 of the U.S. Code requires the chairman of the Joint Chiefs of staff to assess the readiness of designated agencies to support U.S. military forces in the event of war or threats to national security.<sup>7</sup> Conducted every two years, the CSART assessments are generally credited with providing detailed information useful in gauging the readiness of individual agencies. The reports provide a summary of the views of the combatant commanders (CINCs) on operational and management issues affecting each agency. Concerns have been raised, however, that recommended changes that involve resources are difficult to follow through, partly because the Joint Staff and the CINCs are not in the agency resourcing chain. The CSART assessments also do not address cross-cutting issues.

**OSD Biennial Reviews.** Biennial reviews provide another way for OSD to evaluate the performance of defense agencies. These assessments, required by Section 192(c) of title 10, U.S.C., are essentially surveys of customers on agency performance and customer satisfaction. The surveys focus on two questions: whether there is a continuing need for each agency and field activity, and whether the services the agencies deliver could more logically be provided by the military departments. The last survey was conducted in 2001. These appraisals provide insights into customers' views on these two questions as well as their overall satisfaction with agency performance. However, the quality of feedback could be improved. The fact that the respondents are organizational customers may matter for agencies who also have retail customers. Furthermore, the reviews are not tied to the resource allocation process, nor are they integrated with other agency assessment mechanisms.

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<sup>6</sup> Appendix 3 provides an overview of these DoD reform efforts.

<sup>7</sup> The organizations designated as combat agencies are DIA, NSA, NIMA, DCMA, DLA, DTRA, and DISA.

**Performance Plans.** Performance contracts (now called performance plans) are intended to link strategic policy guidance with the resourcing process. They provide information about scale, cost, and performance, and potentially enable senior leaders to use that information to generate increased efficiencies, reduce unit costs, and increase customer satisfaction. To further this objective, performance plans include measures of cost, scale, effectiveness, and customer satisfaction as well as plans for benchmarking and agency-wide reengineering actions. The performance plans lay out specific quantitative goals, or metrics, for each agency and are signed by the agency director, the PSA for the agency, and the Deputy Secretary of Defense. Contracts are currently in place for ten agencies: the Defense Contract Audit Agency (DCAA), Defense Commissary Agency (DeCA), Defense Finance and Accounting Service (DFAS), Defense Health Program (DHP), Defense Information Systems Agency (DISA), Defense Logistics Agency (DLA), the Department of Defense Education Activity (DoDEA), Defense Security Cooperation Agency (DSCA), Defense Security Service (DSS), and Defense Contract Management Agency (DCMA). The plans have enabled agencies to define performance objectives for their business areas and identify the resources and costs associated with them. Performance plans also have helped improve effectiveness and efficiency through the monitoring of metrics. One drawback of the process is the lack of an enforcement mechanism or imposition of penalties for missed targets. Also, success in implementing the performance plans has varied by agency. To address enforcement issues, an effort is underway to make performance plans part of the agencies' budget submissions.

**Oversight Boards.** Some agencies have oversight boards that consist of major stakeholders—customers, oversight organizations, and the agency management. The boards provide direction on long-term strategic issues as well as day-to-day operations. An example is the Commissary operating Board, which provides guidance to DeCA. Some agencies have multiple boards addressing specialized functional areas.<sup>8</sup> These technical boards provide direction to ensure that standards are met for effectiveness and compliance reasons. To date, ten of the 22 defense agencies and field activities have established oversight boards. The scope and effectiveness of the board's activity varies widely, with some boards playing no more than an advisory role.

## **Options for Improving Defense Agency Management**

Despite extensive management reform efforts, many would argue that more needs to be done. Some observers contend that the existing mechanisms are ad hoc in nature and are best suited to the evaluation of individual agencies. They propose processes that would present a more macro evaluation across agency (and service) lines. Two ideas that move in this direction have been discussed: one takes a programmatic approach, while the other proposes a different organizational framework for agency oversight.

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<sup>8</sup> Examples include the boards or committees for DISA's various business lines.

## **Programmatic defense agency review**

A programmatic defense agency review would thoroughly evaluate the activities of each agency, but also would address cross-agency issues and seek efficiencies in end-to-end processes. More specifically, such a review would:

- Seek to ensure that agency programs are properly delineated by business area and that resources are linked to specific output measures;
- Evaluate the full range of agency programs to ensure that resources are being optimally employed and operations are as efficient as possible; and
- Identify efficiencies within and across agency lines.

These annual defense agency assessments would take place before the main DoD program/budget review and would focus on agencies performing commercial-like functions (DHP, DLA, DFAS, DISA, DeCA, DoDEA, DCAA, DCMA, DSCA, DLSA, AFIS, and OEA). An Agency Review Group consisting of representatives the respective Under/Assistant Secretaries of Defense, customers (the military services and Joint Staff), the Under Secretary of Defense (Comptroller), and the Office of Program Analysis and Evaluation would evaluate defense agency plans and programs in accordance with the above objectives. The Deputy Secretary of Defense would serve as the final decision authority

## **Defense Support Executive**

Some studies recommended the establishment of a more unified management structure. The 1995 Commission on Roles and Missions proposed creating a “Defense Support Organization” with responsibility for all agencies. A 2001 study by the Institute for Defense Analyses recommended creating a “Defense Support Executive” (DSE). The DSE would:

- Oversee a small, but highly qualified staff;
- Employ a business-style management approach; and
- Report directly to the Secretary and Deputy Secretary of Defense.

Proponents argue that the DSE approach would solve the problems of top-level management authority and attention. A senior executive with oversight over all agencies could be an enabler of change, capable of mobilizing the resources necessary to fix economic problems confronted by defense agencies. Some would argue, however, that the responsibilities vested in such a position would be too diverse to be discharged by a single staff (especially one that is expected to be small). Critics also would argue that the federal government typically does not attract the type of staffs required to implement business-style management.

## **Other Proposals**

The two options examined above would consolidate management and oversight across agencies. The preceding section mentioned a less ambitious alternative: strengthening defense agency performance plans. Some observers have proposed outsourcing, or privatizing, those defense agencies that provide commercial-like goods and services. A potential advantage of this approach is that many of the management problems would be outsourced as well. Others propose retaining only the agencies' policy-setting responsibilities and outsourcing the remaining functions. These proposals must be evaluated on a case-by-case (or agency-by-agency) basis, which is beyond the scope of this paper. It should be noted, however, that contracting out is not always an option, in that congressional mandates and/or DoD policy may limit the ability to outsource. In addition, the economics of the problem can argue for retention, perhaps due to economies of scale and scope, the need to maintain wartime surge capacity, or the desire to buy a product or service at below-market standards (and pay below-market prices). While the concept of outsourcing is appealing, management and oversight problems will persist for those parts of agencies that are not outsourced.

Finally, some have proposed returning functions to the services. Again, the economics may argue against this idea—restoring activities to service control could foster the duplication that the agencies were created to eliminate. For those areas where the needs for military service-specific control outweigh economic and efficiency concerns, however, this option could be appealing.

## **Conclusion**

Monopolies sometimes come into existence because of continuous economies of scale (natural monopolies) or due to market failure (e.g., the need to maintain wartime surge capacity). Attempts to counteract the negative aspects of monopoly behavior have typically included regulation to elicit desired outcomes. Regulating monopolies, however, is challenging both in the private and public sectors. It is a task that demands constant attention. The Department of defense has, over the years, utilized the PSA management structure, the PPBS process, CSARTs, performance plans, customer surveys, and oversight boards to ensure that defense agencies are efficient and respond adequately to customers' needs. DoD continues to wrestle with the magnitude of this problem.



## **Appendix 1: A Brief history of Defense Agencies**

- The National Security Act of 1947 initiated a series of efforts to eliminate duplication among the services in the supply area and laid the foundation for the eventual creation of a single integrated supply agency. Prior to the creation of the Defense Logistics Agency (DLA), intervening actions include the successive establishment and subsequent abolition of the Munitions Board (National Security Act of 1947), Defense Supply Management Agency (Defense Cataloging and Standardization Act of 1952), an Assistant Secretary of Defense for Supply and Logistics (the Eisenhower Reorganization Plan #6 in 1953), and the adoption of a single manager system for logistics. The driving force behind all these initiatives was removal of inefficiencies caused by duplication. Ultimately, the Defense Supply Agency (DSA) was created in 1961 and renamed the Defense Logistics Agency in 1977.
- The Defense Communications Agency (DCA) was created to take over long haul and point-to-point communications and reduce duplication of facilities. In response to advances in computer and telecommunications technology, which became available from multiple providers (other than the AT&T monopoly), Defense Management Review Directives (DMRDs) were issued in the early nineties that expanded DCA's responsibilities and transformed it into the Defense Information Systems Agency (DISA). The primary objectives for this action include improved interoperability and economies of scale.
- A Joint Chiefs of Staff (JCS) study concluded that there were inefficiencies in the military intelligence system, such as duplication of requirements, collection activities, and publications. Recommendations were made to consolidate defense intelligence efforts. The Defense Intelligence Agency (DIA) was created in 1961.
- In 1965, DoD consolidated most of the contract administration work in the military services to avoid duplication of effort and provide uniform contract administration procedures. The Defense Contract Administration Service (DCAS) was established under the then DSA to manage the consolidated functions. The modern embodiment of this function, the Defense Contract Management Agency, was carved out of DLA in 2000.
- A blue ribbon panel commissioned by President Nixon issued a report in 1970 identifying a number of support functions common to the military services that, by then, had not been consolidated under defense agencies. Subsequently, three agencies (still existing today) were established.<sup>1</sup> The services' mapping activities were consolidated into the Defense Mapping Agency (DMA) in 1972.<sup>2</sup> The consolidation was undertaken to foster increased efficiencies and economies of scale while meeting

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<sup>1</sup> Actually, four agencies were created at the time: the Defense Mapping Agency (DMA), Defense Security Assistance Agency (DSAA), Defense Investigative Service (DIS), and Defense Civil Preparedness Agency (DCPA). DCPA assumed the functions of the Army's Office of Civil Defense in 1972. DCPA was itself disestablished in 1979 and its mission transferred to the Federal Emergency Management Agency (FEMA).

<sup>2</sup> DMA became the National Imagery and Mapping Agency (NIMA) in October 1996.

the unique requirements of each military department. The Defense Security Assistance Agency (DSAA) was established in 1971 to administer foreign military assistance and sales programs.<sup>3</sup> The conduct of personnel security investigations was centralized in the newly created Defense Investigative Service (DIS) in 1972.<sup>4</sup> Prior to that time, the services had conducted their own personnel security investigations, often with differing standards.

- The provision of educational services to the dependents of service members was unified under the Department of Defense Dependent Schools (DoDDS) field activity, which was established in 1976. This action was taken to establish common standards and practices, which varied substantially when the services ran their own dependents' school systems.
- In October 1991, DoD brought together the three military medical departments and the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) under the Defense Health Program (DHP). While the military medical departments each continue to operate their hospitals and clinics, they receive funding and oversight from the Assistant Secretary of Defense for Health Affairs, who oversees the program. Since the DHP's establishment, TRICARE (which offers a triple option benefit) has replaced CHAMPUS and the TRICARE Management Activity was created to manage the budget and benefit aspects of the medical program.

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<sup>3</sup> The Defense Security Assistance Agency (DSAA) is known today as the Defense Security Cooperation Agency.

<sup>4</sup> DIS was renamed the Defense Security Service (DSS) in November 1997 in recognition of its broadened mission.

## **Appendix 2. Defense Agencies and DoD Field Activities**

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### ***Commercial-like***

Defense Logistics Agency  
Defense Health Program / TRICARE Management Activity  
Defense Commissary Agency  
Defense Legal Services Agency  
Defense Contract Audit Agency  
Defense Security Cooperation Agency  
Defense Finance and Accounting Service  
Department of Defense Education Activity  
Defense Information Systems Agency  
American Forces Information Service  
Defense Contract Management Agency  
Office of Economic Adjustment  
Defense Security Service

### ***Research and Development***

Missile Defense Agency<sup>1</sup>  
Defense Advanced Research Projects Agency

### ***Intelligence***

National Security Agency  
National Imagery and Mapping Agency  
Defense Intelligence Agency

### ***Other***

Washington Headquarters Service  
Defense Prisoner of War / Missing Persons Office  
Defense Threat Reduction Agency  
Defense Human Resources Activity

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<sup>1</sup> Formerly the Ballistic Missile Defense Organization.

### **Appendix 3. DoD Reform Efforts**

Over the years, DoD has undertaken many efforts to tighten and improve defense agency management. These efforts have included legislative and internal reform initiatives aimed at both management oversight and resource efficiencies.

#### **Goldwater-Nichols Act**

The Goldwater-Nichols Department of Defense Reorganization Act of 1986 provided a comprehensive legislative attempt at defense agency management reform. The provisions of the act are codified in Title 10, United States Code (U.S.C.). The act reaffirmed the defense agency concept and authorized the Secretary of Defense to provide for the performance, by a single agency, of supply or service functions common to more than one military department, whenever he determines that such actions would be more effective, economical, or efficient (Section 191, Title 10 U.S.C.). The Goldwater-Nichols Act also includes the following significant provisions:

- Directs the Secretary to assign responsibility and overall supervision of defense agencies (except the intelligence agencies) to a civilian executive in the Office of the Secretary of Defense or to the Chairman of the Joint Chiefs of Staff (Section 192, Title 10 U.S.C.). The official assigned oversight responsibility shall advise the Secretary on the extent to which the programs and budget proposals of the agency conform with the requirements of the military departments and the unified and specified commands. This provision is basically what prevails today, as shown in figure 1 above. The National Imagery and Mapping Agency and the National Security Agency report directly to the Secretary of Defense. All other agencies report to an under secretary or assistant secretary of defense. None are assigned directly to the JCS chairman, although he is authorized to assess the performance of designated combat support agencies.
- Directs the Secretary to establish procedures to ensure full and effective review of the plans, programs, and budget proposals of each defense agency and DoD field activity (Section 192, Title 10 U.S.C.). As previously discussed, the effectiveness and rigor of defense agency program reviews could be improved.
- Requires the Chairman of the JCS to review and advise the Secretary of Defense on the readiness of combat support agencies to carry out their wartime missions. For combat support agencies, section 193, Title 10 U.S.C. requires the JCS chairman to:
  - Periodically, and no less often than every two years, submit a report to the Secretary assessing the responsiveness and readiness of each agency to support operating forces in the event of war or threats to national security.
  - Provide for agencies' participation in joint training exercises to the extent necessary to ensure their readiness for combat support role and assess their performance of these activities.

- Develop a uniform system for reporting to the Secretary of Defense, the unified and specified combatant commands, and the secretaries of the military departments, on the readiness of each agency to perform assigned combat support missions.

### **Commission on Roles and Missions (1995)**

The Commission on Roles and Missions (CORM) was chartered to define broad military roles and missions, identify key support requirements, and develop a process for organizational allocations to meet future challenges. The CORM's work included an examination of the management of defense agencies and field activities. The main concerns noted were about responsiveness to customers, the need for budget discipline, and the burdens of line management on PSAs. To address the customer responsiveness concern, the CORM recommended that boards of directors be established for defense agencies and the larger field activities. The boards' membership would include major customers, the Joint Staff (for the CINCs), and private sector experts as appropriate. Their roles would include reviewing agencies' strategic objectives, plans, programs, and management structures. Today, most agencies and field activities do not have a board of directors.<sup>1</sup> Some have oversight boards with responsibility for policy oversight (DCMA, DHP, DeCA, WHS, DLSA, and DHRA). A few others have external bodies performing an advisory role (DTRA, DFAS, DoDEA, and DIA). Moreover, the power and level of activity of the boards vary.

For a more direct management approach, the CORM recommended creating a Defense Support Organization (DSO) to oversee the commercial-like agencies. The DSO would be headed by a senior civilian or military officer with responsibilities similar to those of a board of directors.

It was envisioned that the boards of director and the DSO concept would free the PSAs from agency management burdens and allow them to focus more directly on their primary responsibilities.

### **1997 Defense Reform Initiative and Quadrennial Defense Review**

The recommendations of the CORM were incorporated into a provision of the FY 1997 National Defense Authorization Act (Public Law 104-106), which mandated a quadrennial defense review of the defense program of the United States. Among other things, the Quadrennial Defense Review (QDR) would examine the appropriate ratio of support forces to combat forces, including an assessment of the proper size of headquarters units and defense agencies. The first QDR, which was conducted in 1997, found that while the Department had reduced the number of active-duty personnel by 32 percent since 1989, the number of personnel in the infrastructure category had been cut by only 28 percent.

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<sup>1</sup> Twelve of the 22 defense agencies and field activities do not have a board of directors: DCAA, DLSA, DLA, DPMO, DSS, DSCA, DARPA, AFIS, BMDO, NIMA, and NSA.

After the QDR's conclusion, the Secretary of Defense established a task force on defense reform to further explore organizational and business practice improvements in the defense infrastructure. The main goal of the 1997 Defense Reform Initiative (DRI) was to improve efficiency in infrastructure and free resources to be applied to modernization. The DRI outlined a series of improvements to streamline, reduce, or eliminate management headquarters personnel in OSD, the Joint Staff, defense agencies, and field activities. Defense Reform Initiative Directives (DRIDs) on specific actions were issued. Key results of the DRI relating to the governance of defense agencies include the formation of the Defense Management Council (DMC) and the establishment of defense agency performance contracts (now called performance plans).

***Defense Management Council.*** The Defense Management Council (DMC) was created in November 1997 as the Secretary's agent for the oversight of progress and implementation of defense reform. Chaired by the Deputy Secretary of Defense, the DMC includes representatives from OSD, the Joint Staff, and the military departments. The duties of the council with respect to defense agencies include the following:

- Strengthening departmental oversight and increase the accountability of defense agencies. Specifically, the DMC is charged with ensuring that defense agencies adopt new, innovative, and more efficient ways to accomplish their assigned missions.
- Negotiate performance plans with the heads of defense agencies and monitor the agencies' progress in meeting the goals established in the contracts.<sup>2</sup>
- Monitor progress toward implementation of changes in business processes and competitive outsourcing, in accordance with Office of Management and Budget (OMB) Circular A-76.

***Defense Agency Performance Plans.*** Defense Reform Initiative Directive #23 established annual performance plans for most non-intelligence agencies and designated field activities.<sup>3</sup> The DRID also established terms of reference for the Defense Agency Task Force—the arm of the DMC responsible for overseeing the development and implementation of performance plans. The director of the defense agency or field activity, the assigned PSA, the chairman of the Defense Agency Task Force, and the Deputy Secretary of Defense are signatories of performance plans.

Performance plans are intended to assist DoD's senior leadership in achieving two primary goals: first, providing an oversight mechanism [that focuses on information about] scale, cost, and performance; and second, using that information to foster increased efficiencies, reduce unit costs, and improve customer satisfaction. To further this objective, the plans include measures of cost, scale, effectiveness, and customer satisfaction as well as plans for benchmarking and agency-wide reengineering actions. These elements are consistent with agency Program Objective Memorandum submissions and strategic plans.

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<sup>2</sup> Performance plans are further discussed below.

<sup>3</sup> The focus is on agencies performing business-like functions. Intelligence agencies, research organizations, and small activities are excluded.

Performance plans are currently in place for ten agencies/activities: DCAA, DeCA, DFAS, DHP, DISA, DLA, DoDEA, DSCA, DSS, and DCMA. Since their inception, performance plans have furthered the objectives of improved management and oversight. Examples of specific agency achievements include the following: two-tier pricing of telecommunication services (DISA); a shift in “market-ready” items to commercial ordering practices (DLA); a 75 percent reduction in problem disbursements (DFAS); and field office manning improvements (DCAA).

The performance plan process is not without shortcomings, however. One of the main drawbacks is the lack of enforcement mechanisms. Setting targets relies on agency buy-in. Moreover, there are no repercussions for meeting the standards, even in chronic cases. Having to offer an explanation during the annual contract review meeting is typically the greatest consequence of failure. Also, individuals who have worked with the process have noted the problem of PSAs’ span of control being too large to allow day-to-day attention to performance plans. There seems to be agreement that performance plans need more teeth.

The DRI process issued a number of DRIDs directing actions for specific defense agencies. Examples include the following:

- DRID #2 established the Defense Security Service (DSS) in November 1997 by merging the DoD Polygraph Institute, the Personnel Security Research Center, and the DoD Security Institute into the Defense Investigative Service.
- DRID #14 consolidated the TRICARE Support Office, the Defense Medical Programs Activity, and the health management functions performed by the Office of the Assistant Secretary of Defense for Health Affairs. This action created the TRICARE Management Activity in January 1998.
- DRID #21 redesignated the Defense Fuel Supply Center as the Defense Energy Support Center and expanded its mission to include the consolidation of DoD’s regional energy management efforts and the privatization of utility-related infrastructure.
- DRID #37 devolved the management of the Defense Commissary Agency (DeCA) from the USD(P&R) to the Commissary Operating Board (COB). The COB is composed of representatives of the secretaries of the military departments. The board provides advice on the operations of DeCA and the commissary system, and assists in the agency’s overall supervision, in accordance with Title 10 U.S.C. Sections 192 and 2482.